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National
Home Center News®

SECOND CLASS

Vol. 16, No. 8 | $3 a copy | The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. | April 23, 1990

The custom decorating center is the first section that patrons see as they enter the racetrack in Rickel's new HōM prototype in Toms River, N.J. NHCN photo

National files Ch. 11

Ailing chain secures credit and trims down to stay competitive

By Gary S. Ruderman

FOUNTAIN VALLEY, Calif. — Within 24 hours of filing for protection from creditors, National Lumber & Supply appeared ready to enter the competitive fray again.

A federal bankruptcy judge's decision on April 4 allows Fidelcor Business Credit Corp., National's prime asset-based lender, to continue supplying the chain with a $13 million line of credit.

Fidelcor's west coast senior vp Michael Lerner said the formula by which National can draw funds against inventory has been liberalized.

The judge's order also allows National to sell leases of six stores which were closed April 2, and to pursue other financing arrangements.

Vendors contacted after an April 10 creditors committee meeting said they would ship National, extending seven-day, receipt-of-invoice terms.

Other stores could close

Battered by warehouse competitors in southern California, the nation's toughest market; burdened with $18 million to $19 million in trade debt and cut off from supply by some vendors, National was forced to close these

(Continued on page 64)

Rickel ushers in a new era with HōM...

By Tim O'Malley

TOMS RIVER, N.J. — HōM's fashionable prototype premiered in this oceanside town last month to positive reviews from industry watchers and consumers alike.

The 67,000-square-foot store, on which Rickel Home Centers, its developer, rests its very survival, eschews building materials and broad plumbing and electric areas for higher-margin categories such as kitchen and bath and ready-to-assemble furniture.

The goal, Rickel chairman Moshe Meidar told a pre-opening crowd, is a store in which "women are not intimidated and men aren't challenged."

By that standard, most who saw HōM believe it succeeds.

"They really did a fine job," said the manager of a competing southern New Jersey store, who asked to remain anonymous. "The presentation is beautiful."

Another executive, also requesting anonymity, hailed

(Continued on page 15)

...but without its president

By an NHCN staff editor

SOUTH PLAINFIELD, N.J. — In a sudden move, Rickel president Bob Harrow has left the 51-unit chain, apparently because of his refusal to relocate from Massachusetts.

Company chairman Moshe Meidar has taken over for Harrow, whose departure comes only eight months after he joined Rickel, and only days after the chain unveiled its HōM prototype (*see story above*).

Harrow, 61, said he has no immediate plans, and was unsure whether he will pursue a position in the home improvement industry.

Speaking from his home in Newton, Mass., Harrow said he had grown tired of the commute between The Bay State, Rickel's headquarters here and the Westfield, N.J., rented apartment he occupied during the week.

"I don't want to live in the New York area," he said. "My home is in Boston."

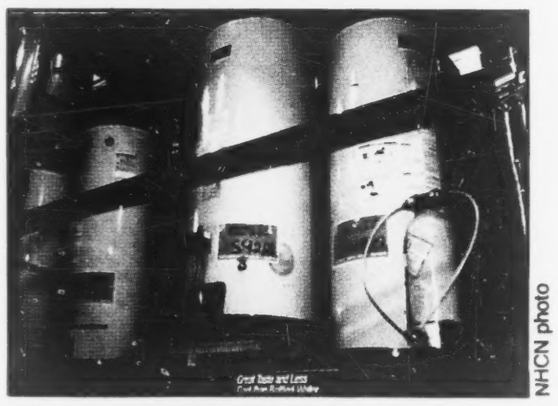
Harrow, whose wife Sheilah is a Boston-based stock-

(Continued on page)

Dealers adjust to stringent new water heater regulations

By an NHCN staff editor

NATIONAL REPORT — Beginning this year, federal guidelines require increased insulating value for all newly manufactured water heaters.



NHCN photo

Starting this year, new water heaters are required to have higher R-values.

Such requirements may translate into increased margins for retailers, who continue to battle the reality that water heater sales are for emergency replacements.

And even harsher regulations will follow in 1993, said Roger Meyer, a spokesman for the U.S. Department of Energy.

At least one retailer, the Bridgeton, Mo.-based Central Hardware, with 38 units, has sought to capitalize on the regulations by promoting, in circulars, "foam insulated" units that conform to standards.

Louie Davis, owner of South States, a Shreveport, La.-based wholesale distributor, replaced his entire stock of water heaters with energy-efficient models from Richmond, which he said have a 15 to 20 percent higher price point. "We're out of the lower end completely," he said.

Others are also banking on higher end. One of the leading suppliers, Reliance of Ashland City, Tenn., claims it has "revolutionized" the industry by replacing glass-insulated models with a more durable composite plastic inner shell.

The supplier also makes a DIY installation video available, and boasts the industry's only "self-cleaning" model.

"A sediment build-up is what usually cuts into energy efficiency," said company spokesman Loran Nordgren.

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POWER KITCHEN AND BATH p.23

Orchard Supply's Loren Smith remembered

By an NHCN staff editor

SAN JOSE, Calif. — Just over a year ago Loren Smith and his elder brother Albert tried to buy back Orchard Supply Hardware, the company here their father Stanley founded with 29 other ranchers in 1945.

That bid failed, as the chain was acquired from Wickes Cos. in a management leveraged buyout. But his bid was an indication of Smith's lasting energy and intense interest in the company from which he retired three years earlier.

That dream of reownership, though, was never fulfilled, as Loren Smith died in Dec. 14 1989 at the age of 66 from cancer.

Colleagues and family recall Smith's unswerving belief in the Orchard "concept," especially its customer service.

"He used to say the customer may not be right but he's never wrong and he believed that down to his toes," said John Self, Orchard's vp-operations.

Smith was also remembered as being very personable, and always had time for customers, employees or vendors. Not surprisingly, he was hired initially as personnel manager in 1972 by his brother Al, then the company's president. He soon became general manager and when W. R. Grace bought the company in 1979, he succeeded Al as Orchard's president.

"It was a smooth transition because he was running the company anyway," said Al Smith. "I'm a farmer and W. R. Grace wanted a businessman in charge."

He became chairman in 1985 when Tom Thornton took over the presidency. Smith retired in 1986 when Wickes bought the company from Grace.

Smith's keen interest in real estate was a plus during Orchard's rapid expansion under Grace, when it grew to 21 units from nine.

Loren Smith, in a photo taken in 1982. NHCN photo

"It was a time not only of physical growth but of maturity and sophistication under Loren's guidance," said Self.

"To me his greatest strength was not trying to reinvent the wheel," recalled Thornton, who was executive vp and chief operating officer during this period. "He recognized what Orchard did well and constantly built on this."

As a rancher's son, Smith developed an expertise on insects, fertilizers and irrigation, which came in handy when developing Orchard's lawn and garden departments. He also invented and patented a rubber shield for an axe handle, called HAND'L SAV'R.

Outside the office, Smith was just as active. Self said Smith was an avid skier, golfer and backpacker, and rode his exercise bike everyday while reading the *Wall Street Journal*.

Smith was also involved with the United Way and Salvation Army and raised funds for Stamford University, his alma mater.

While at Stamford's business school, Smith struck what became a life-long friendship with roommate Donald Petersen, who retired as the chairman of Ford Motor Co. Petersen and Al Smith delivered eulogies at the funeral.

Loren Smith is survived by his wife Lamina, daughter Claire-Ann, and son Stanley. ◆

Quick Response '90 preaches gospel of computer interchange for retailers

By Tom Neven

DALLAS — They describe themselves as revolutionaries. And they want to do nothing less than turn retailing on its head, radically changing the way dealers and suppliers do business with one another.

"They" are proponents of Quick Response (QR), an amalgam of UPC bar code technology, electronic data interchange (EDI) and shipping container marking (SCM).

Pioneered by apparel and department stores, QR is beginning to catch on in the home center industry, as reflected by representatives from Lowe's, Hechinger and Ace Hardware who attended last month's Quick Response '90 conference here.

Basically, QR in its purest form links retailers from the point of sale all the way through the distribution pipeline to manufacturer in a paperless, electronic net of purchase orders, shipping notices and payment. It is a tool to track sales trends, and enthusiasts say it can cut ordering lead times from weeks to days.

If implemented fully throughout retailing, QR offers impressive savings, according to a study done by Andersen Consulting, a division of Arthur Andersen & Co., which found that:

- UPC scanning at point of sale can save the retail industry $2.7 billion a year after an initial investment of $1.6 billion and ongoing annual costs of $441 million;
- EDI can save retailing $259 million annually after an initial investment of $21 million and ongoing annual costs of $60 million;
- SCM, with electronic advanced shipping notice, can save retailing $399 million a year after an initial investment of $32 million and ongoing annual costs of $17 million.

Andersen Consulting has a mock Quick Response environment at their Dallas office. In this photo, a DC worker scans an incoming order while communicating by voice with a computer. NHCN photo

Andersen Consulting also points to reduced markdowns, the result of smarter buying allowed by QR, and lower inventory carrying costs, allowed by just-in-time delivery, that can save additional millions for retailing.

QR also promises to free buyers from the need to write and track orders, conduct inventory counts and other duties that take them away from their primary job: to analyze sales trends and to merchandise a product.

Allan Boynton, retail industry manager with GE Infor-

(Continued on page 64)

Amdura denied financing; files Ch. 11

By Tim O'Malley

DENVER — Its pleas for cash unheeded, Amdura Corporation filed Chapter 11 this month, and some of the company's more than 1,800 hardware dealers began searching for alternate supply sources.

"We're continuing to ship everyone," said spokesman Scott Ross. "But we don't have all the quantities [of merchandise]."

Amdura owns the hardlines franchisor CoastAmerica and the distributor Farwell, Ozmun & Kirk (FOK). Last month, after admitting cash flow problems were affecting its operation, Amdura sought help from a 14-bank consortium led by Continental Bank of Illinois.

But the banks, already owed most of Amdura's $256 million debt, refused to extend credit or renegotiate terms. A spokesman for Continental Bank declined comment. Just last month, the banks granted the company a three-month loan extension.

Picking up dealers

The Chapter 11 filing has left an open door for competing hardlines distributors. Each of the major co-ops—including Ace, Cotter, Hardware Wholesalers Inc. and ServiStar—are said to be trying to sign away Amdura's dealers. CoastAmerica serves 1,200 franchised Coast to Coast dealers, and FOK has 600 Trustworthy dealers.

Our Own Hardware, a regional co-op in Burnsville, Minn., claims it has already signed "more than 100" dealers as a secondary supplier.

"We're acting as a fill-in vendor," said Steve Saefke, Our Own's marketing director. "We've been anxious for the business."

Two Coast dealers signed by Our Own—in Sturgis, Mich., and Brazil, Ind.—refused comment. Another dealer, in Mt. Vernon, Ind., said he was meeting with Our Own as a precautionary measure.

"We're preparing ourselves for a back-up," said the dealer, who requested anonymity.

Saefke said Our Own's strengths are in plumbing, electricals and builders hardware, but not in two other major categories stocked by Coast and Trustworthy stores—sporting and automotive goods.

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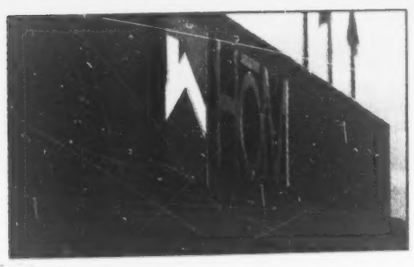
upfront



Rickel unveils its new store concept—HōM. Photos and story . 15

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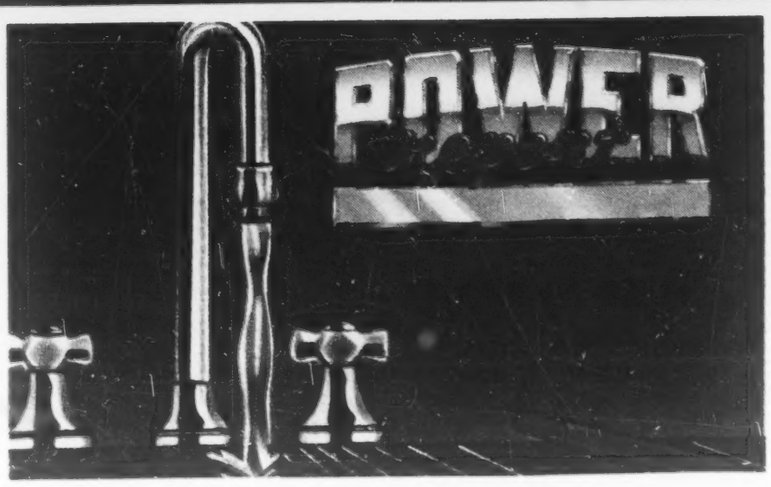
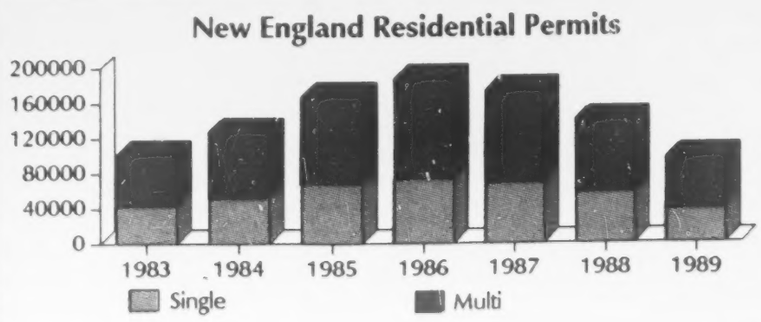


business watch



BUSINESS WATCH 59

POWER

Independents expand both K&B departments and promotions

By John Sinisi

NATIONAL REPORT — Independent lumberyards are upgrading their kitchen and bath displays to impress their mostly contractor customer base. Those who can afford it are putting up detached showrooms; those who can't are doing their best to dress up existing K&B floor space.

However, dealers report that expanding or adding kitchen or bath displays doesn't translate automatically into instant sales.

In the competitive Martinsville, Va., market, rife with chains like Lowe's and Moore's, The Lester Group tacked on 15 percent in new space last year in both departments. It upgraded stock and vignettes to zero in on the contractor market.

"It was disappointing [at first] because we didn't create a market for it," said Lester's vp and gm Dillard Jones.

Now that the three-store retailer is featuring kitchen and bath more heavily in its advertising, and started an installed sales program, Lester's K&B department is catching on. But Jones concedes that margins have yet to crack the 33 percent barrier.

"Maybe after we learn to merchandise and display better, we can increase the margins."

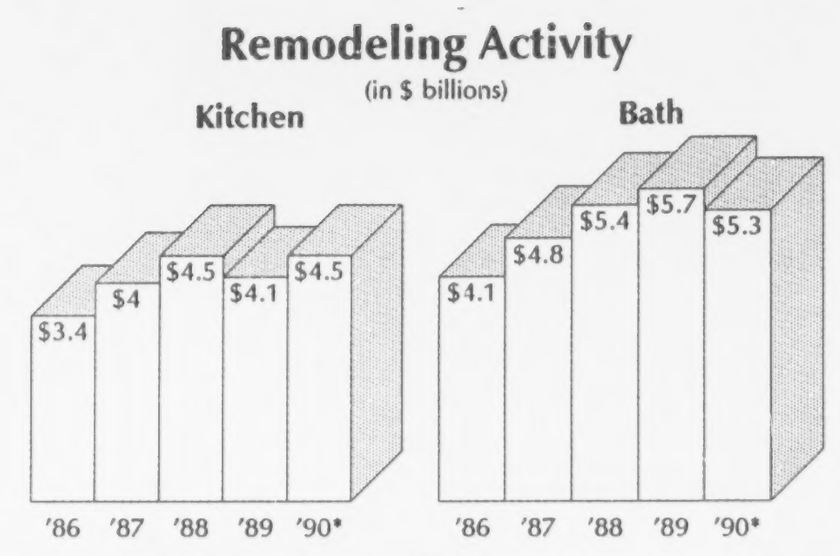
Promotions hyped

Increased product exposure in the stores needs to be coupled with media promotions, say dealers. Builders Supply found this out last winter, traditionally a slow selling season, when it ran a half-page ad in the Omaha, Neb., *Sunday World Herald* featuring a variety of products in the category last New Year's Eve, and saw a bump in K&B sales that lasted through the first quarter.

"Within a week's time, we moved 10 toilets and about four cast iron tubs, and assorted items," says store manager Jerry Hasbrook. "I'd say that a third to a half of those items were tied into full bath remodel projects."

Sulphur, La.-based Stine Lumber last month finished tripling its K&B departments in its Sulphur, De Ridder, Jennings, and Lake Charles stores to 30,000 square feet.

(Continued on page 30)



Source: National Kitchen & Bath Association, *NHCN* Chart

* projections

Kitchen remodeling will return to 1988 peak levels and bath remodeling will level off in 1990, according to data compiled by the National Kitchen and Bath Association.

Francis Jones, NKBA's executive director suggests there may be a lot of pent up demand in future as only an estimated five percent of the current 100 million houses have tackled remodeling projects to date.

In the future the kitchen needs to become more flexible, with room for two cooks, to accomodate weekend extended families or the "sandwich" generation with three generations living in one house.

Dealers, small and large, expand K&B presentations

(Continued from page 24)

attention dealers are giving them in terms of manpower and merchandise.

Better trained personnel are now designated to manage these departments. Indeed, several chains—including Hechinger, Wickes Lumber, Home Depot, Ernst, Builders Square and Sears—are enrolling their employees into classes conducted by the National Kitchen and Bath Association that can lead to their certification as designers.

"Instead of transferring the guy who was selling chain link fence the week before into K&B sales, we now see more expertise," says Francis Jones, NKBA's executive director. He adds that these moves give store employees more career paths, complete with commissions.

That has certainly been the case at Grossman's and Payless Cashways, two chains which have seen the value of rewarding skilled salespeople in their departments.

In February, during a heavy bath sales promotion, the Kansas City, Mo.-based Payless offered its employees cash incentives for sales. The personnel were specially trained with in-house and vendor educational programs.

Grossman's, the Braintree, Mass.-based retailer, rewards employees who complete the entire "project partners" training course with a $250 bonus. Kitchen and bath are two of the areas where training is offered in this "master's program," which covers a number of projects and commenced 18 months ago.

It was instituted "to motivate employees and give them both financial and personal recognition for all the work they put into the program," says Jim Wagner, Grossman's manager of human resource development.

Going after remodelers

The training aspect of dealers' kitchen and bath programs has become increasingly important in light of the fact that many home improvement retailers are trying to compete against specialty stores that are said to number anywhere from 12,000 to 15,000 nationwide.

Products and services (including the availability of installation) had to be improved. Vignettes, which were shunned in the early 1980s, have gained renewed respectability especially among dealers who want to showcase higher-priced merchandise.

The fact that Home Depot can now display major appliances, Grohe faucets (on special order) and Kohler's rain-wind-sun-steam Habitat bath has a lot to do with the increased square footage and spruced up presentation it has made for these departments in its newest stores.

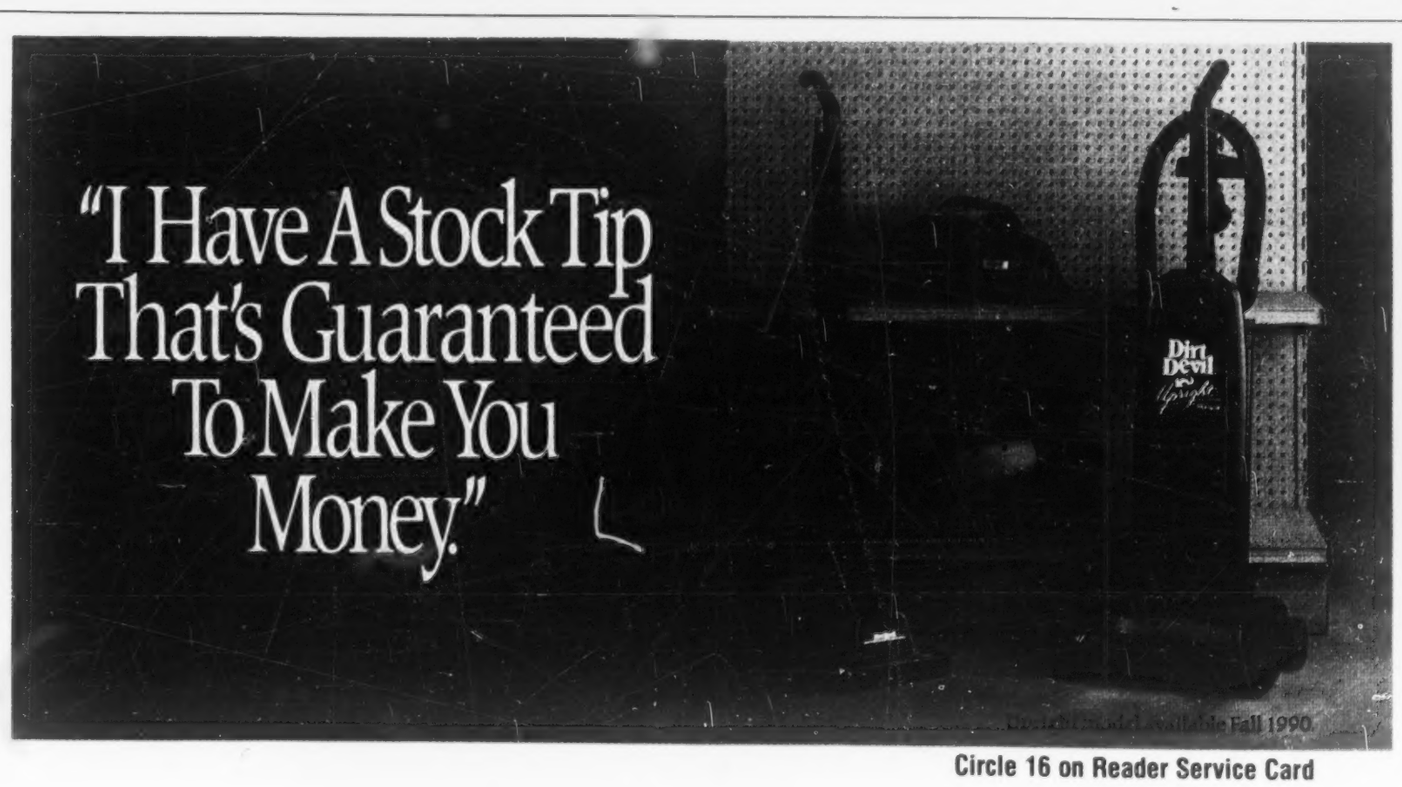
Payless, which for years had bath products—with the exception of some sinks and vanities—scattered throughout its 195 stores, last fall opened its 21st Century Bath Collection, which takes up 2,200 square feet of an average 27,000-square-foot unit.

In that area, designer colors and hexagon-shaped sinks are part of the mix. Vignettes are designed and customized right down to the soap and towels. An aisle of faucets features four vendors' top lines. High end vanities are also now displayed, says merchandise manager Debra Wagner.

In fact, it appears that dealers of all stripes are moving to move closer towards a showroom-within-the-store presentation that can serve as a place where remodelers can bring their homeowner customers, and where homeowners can get new design ideas.

When General Building Products opened its newest store in Lynwood, N.J., last month, half of its 6,000 square feet went to 10 full kitchen displays with appliances, design services and installed sales.

The 11-unit General, based in Medford, N.Y., has been attaching full-line showrooms to its stores since 1979. And its executive vp, Thomas Flaherty, sees other dealers following suit to attract home builders who are in a business trough and want to increase their remodeling activity. ◆



Just put Dirt Devils on your shelves and watch them move. And this year, they're going to move faster than ever. That's because in every month of 1990, we're going to get the word out on the entire Dirt Devil line including our new upright model. On radio, your customers will hear about us from Paul Harvey, America's most popular and respected radio journalist. Your customers will read about us in the nation's leading consumer magazines. And we'll also be running more network television spots than ever before. So stock the entire Dirt Devil line. And I guarantee you'll start cleaning up. Call us at 1-800-321-1134 (1-800-362-5509 in Ohio).

John A. Balch
President,
Royal Appliance

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Circle 16 on Reader Service Card

business watch

NEW ENGLAND: *Building material sales are in trouble*

The New England economy remains sour for building material sales. This year we expect sales to be up only 2.8 percent versus a national increase of 6.3 percent. This follows a 2.6 percent decline for New England and a 3.4 percent gain for the nation in 1989.

Richard E. Mount

The area is in a near recession with employment off 0.1 percent, by far the worst in the nation. The Middle Atlantic, up 0.7 percent, is second worst. There are significant declines in construction (-7.9 percent) and manufacturing (-3.7 percent). The New England declines are the greatest in the nation.

Government employment is almost unchanged and budget problems should reduce this sector further. Surprisingly, finance has held up relatively well, with the advance almost equal to the national average.

New Hampshire (-1.2 percent), Massachusetts (-0.5 percent) and Rhode Island (-0.4 percent) are the three weakest states in terms of employment gains.

New residential construction is very soft—single unit permits were off 30.4 percent last year, multis by 39.4 percent. This followed sharp declines in 1988 and 1987 as well.

With the drop in new permits last year, building material demand for new construction should continue to falter this year as well. Resales, a strong indicator of building material demand, for the next six months are also showing a declining trend.

There are positives here, though.

Household income in New England is exceptionally strong, 20.2 percent above the national average. The Fairfield area in Connecticut has the highest per capita income in the nation.

Population age distribution is also a plus for sales with a higher concentration in the 45 to 65 and 65-plus age groups. These households are more likely to undertake remodeling projects. The aging of the housing stock is also a plus since these houses are in greater need of renovation

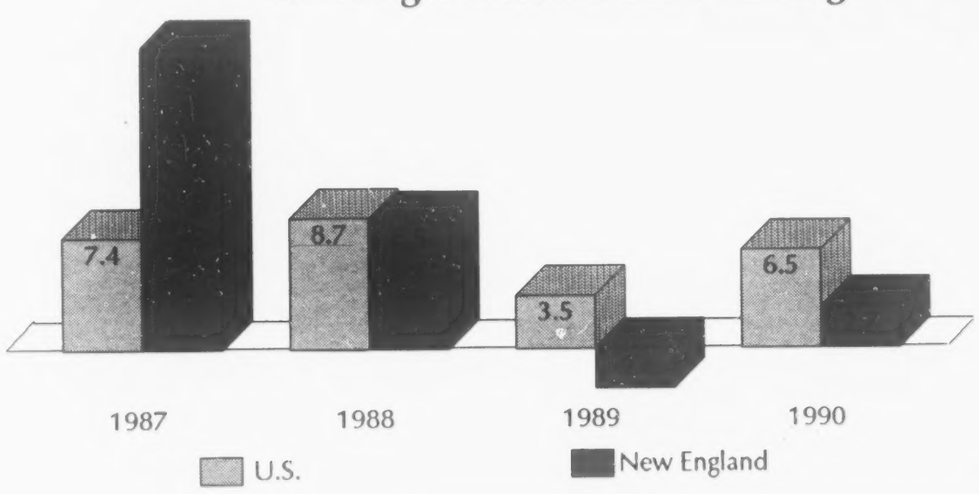
While New England should continue to have the worst performance of the nine regions in 1990, the change in sales should be slightly positive versus last year's small decline.

The housing market has been in decline since 1987 and the steepest part of the fall is over. Mortgage rates and home improvement loans will be slightly lower this year than last. ◆

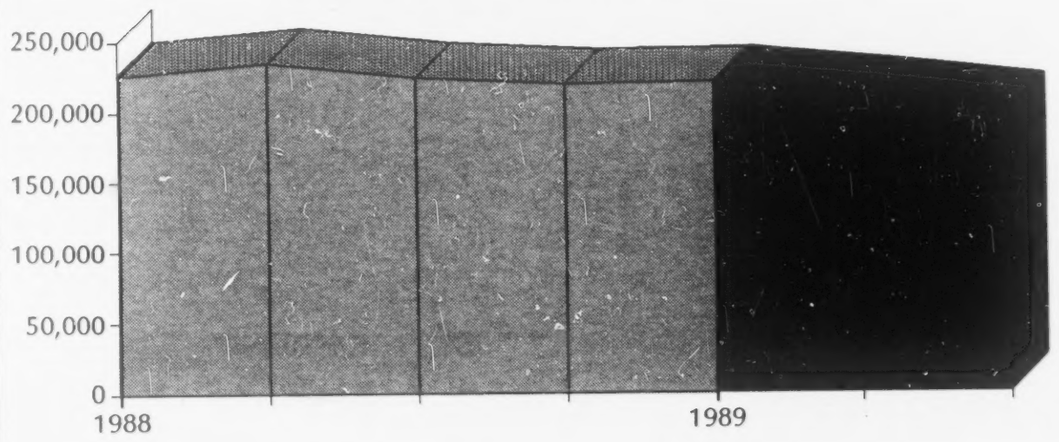
Richard Mount is president and chief economist with Mount Economic Consulting

market momentum

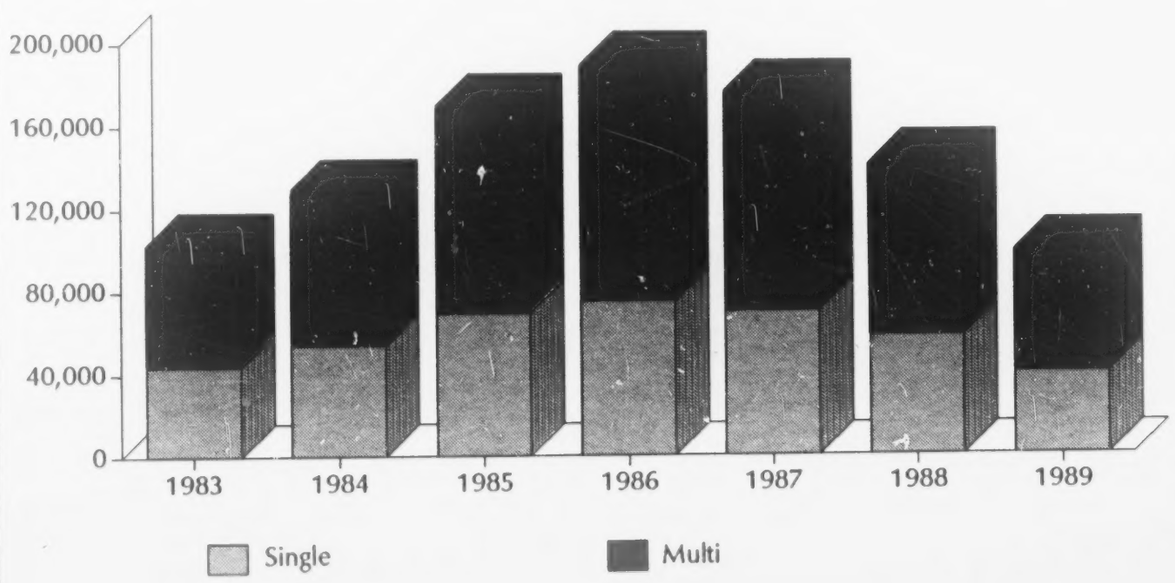
Building Material Sales % Change



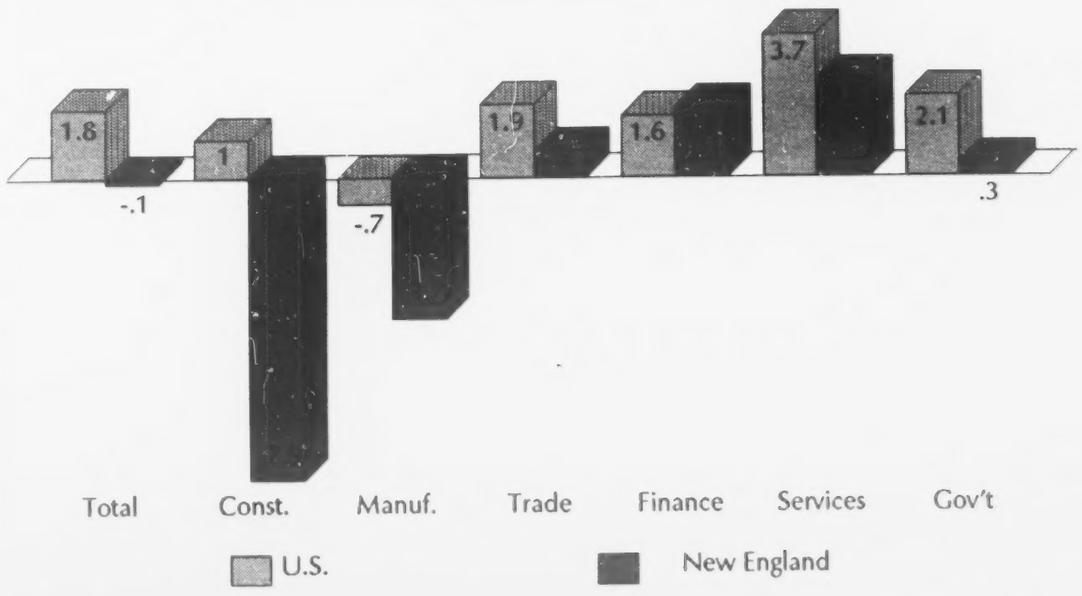
New England Resales (SAAR)



New England Residential Permits

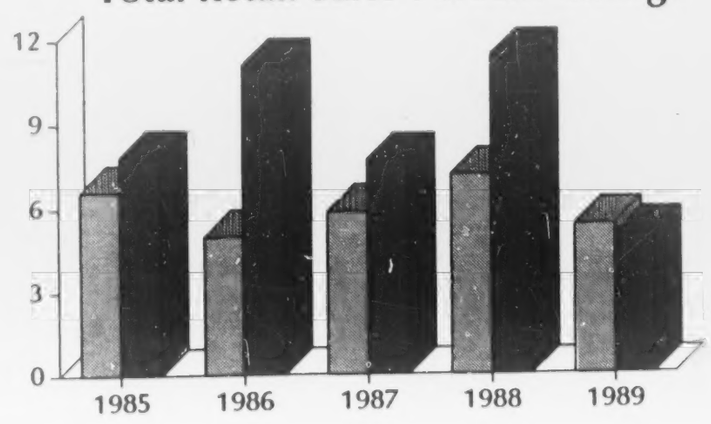


Employment Percent Change One Year Ago

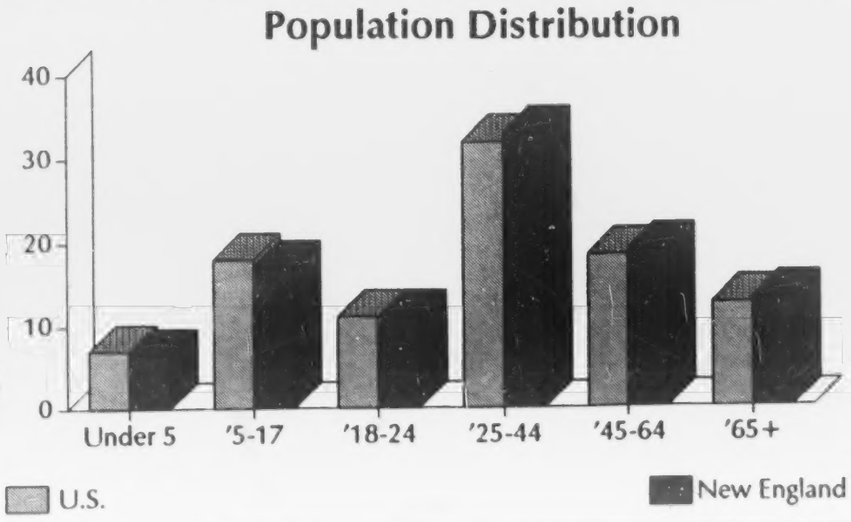


the bigger picture

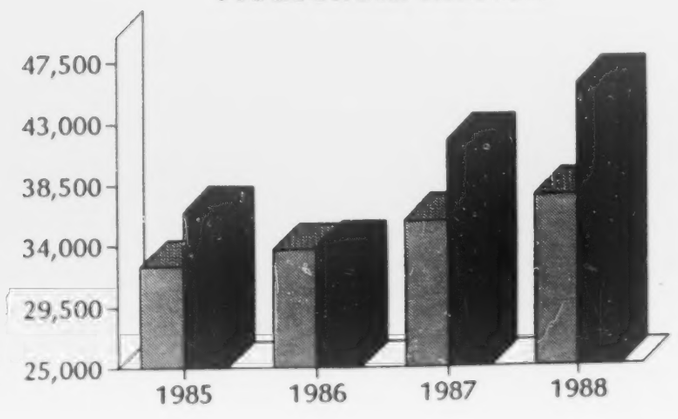
Total Retail Sales Percent Change



Population Distribution



Household Income



Data for all charts: Dept. of Commerce / Bureau of Labor Statistics / National Association of Realtors / Dept. of Housing and Urban Development SAAR = Seasonally Adjusted Annual Rate / p = projection / *NHCN* Charts